



DEFERRED COMPENSATION (457) PLAN UPDATES & INVESTMENT OPTIONS ANNUAL REVIEW

INVESTMENT OPTIONS ANNUAL REVIEW

The Public Employees' Retirement Board (PERB) and the Employee Investment Advisory Council (EIAC) recently completed their annual review of the mutual funds offered in your Deferred Compensation (457) Plan. Detailed information regarding the fund review process may be accessed at www.state.mt.us/doa/perb/perb.htm

Based on the review, the PERB decided to:

1. Discontinue the Great West Profile funds - Profile funds are "funds of funds" consisting of many different underlying investment options, all of which may not meet the PERB's performance benchmarks. The PERB is considering whether to use the Plan's existing core investment options to create new "funds of funds".
2. Discontinue the following investment options:
 - ✓ Janus Balanced Fund (balanced fund)
 - ✓ Janus Worldwide (global fund)
 - ✓ Strong Opportunity (mid cap value fund)

These investment options have failed to meet PERB's performance benchmarks for at least one year. Other critical indicators, such as changes in management, also warrant discontinuation.

3. Place the following investment options on a watch/probation status:
 - ✓ Columbia High Yield (high yield bond fund)
 - ✓ Neuberger Berman Genesis trust (mid cap value fund)

These funds have only recently failed to meet PERB's performance benchmarks. They will be monitored for improvement or possible discontinuation.

4. Add the following new investment options:
 - ✓ American Funds New Perspective R4 (global fund replaces the Janus Worldwide fund)
 - ✓ Hotchkis & Wiley Mid Cap Value A (mid-cap value fund replaces the Strong Opportunity fund)

These investment options meet all of the performance benchmarks and ensure sufficient diversity and selection among asset classes. The new funds will be available **July 14, 2004**.

Transaction Freeze Period: Participants have until **2:00 p.m. MT, Thursday, October 14, 2004**, to transfer assets from discontinued investment options to other investment options of their choosing. Any assets remaining in discontinued investment options after the deadline will be transferred as follows:

- ✓ **Janus Balanced fund** assets will go to the **Dodge and Cox Balanced fund**
- ✓ **Janus Worldwide fund** assets will go to the **American Funds New Perspective fund**
- ✓ **Strong Opportunity fund** assets will go to the **Hotchkis & Wiley Mid Cap Value fund**
- ✓ **Profile funds** assets will go to new asset allocation funds, if available, or to the stable value fund

The Plan's recordkeeper, Great West Retirement Services, will close the Plan (including KeyTalk® and the website) to all inquiries and transactions from the above deadline through the **afternoon of Friday, October 15, 2004**. This provides necessary time to transfer remaining account balances and reconcile all investment options.

DECREASED ADMINISTRATIVE FEES

Administrative fees assessed Plan participants will **decrease**, as follows, beginning with the quarter ending June 30, 2004. Administrative fees are based on account balances and are prorated across all investment options.

FEE TYPE	PREVIOUS FEE	NEW FEE
Flat Dollar Fee	\$ 1.25 per quarter or \$ 5.00 per year	\$1.25 per quarter or \$5.00 per year
Asset Based Fee (based on account balance)		
(Up to) \$20,000	.45% (of account balance)	.35% (of account balance)
(Next) \$20,001 - \$50,000	.35%	.25%
(Next) \$50,001 - \$100,000	.20%	.15%
(Next) \$100,000+	.00%	.00%

MUTUAL FUND ISSUES

The PERB and the EIAC, to address alleged trading practice abuses, have established a process to monitor the trading practices of certain mutual funds. A questionnaire is immediately sent to any mutual fund company with investment options in the plan when any question, allegation or charge is brought against it. Depending on the nature and potential economic impact of the alleged abuse, steps taken by the mutual fund company to correct the alleged abuse and to eliminate future abuses, and any proposed remedial action, the PERB may take action up to and including discontinuation of the investment option.

The PERB and the EIAC are also closely watching the actions of regulatory authorities such as the SEC. Actions by regulatory authorities and a mutual fund company's response to such actions may be sufficient to correct and clear any issues of wrongdoing.

POTENTIAL CHANGES TO TRADING PRACTICES

Regulatory agencies, such as the SEC, are recommending **potential** changes to current standard practices within the industry, including:

- 1) Daily trading – Currently, Plan participants who place a trade prior to 2:00 p.m. (close of the NYSE) receive the share price existing at the close of business that day. Proposed changes require that trade requests be placed far earlier to receive that day's closing share price. A three-day processing time for trades could result. Potential daily trading changes will also delay the crediting of payroll contributions.
- 2) Trading restrictions – most mutual fund prospectuses have clauses that either limit the number of times or the amount an investor may trade in their fund, or leave those determinations up to the mutual fund company. If a mutual fund company determines any plan participant has not complied with their trading restrictions, the company may: (a) limit or end the trading ability of that participant OR of all plan participants; (b) impose redemption fees on that participant OR on all plan participants; or (c) a combination of (a) and (b) above.

Whether any or all of these changes will occur is unknown and not up to the PERB. If specific changes do occur, you will be notified.